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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

In the Matter of	)	
	)	
Beehive Telephone Company, Inc.	)	CC Docket No. 97-249
Beehive Telephone, Inc. Nevada	)	
	)	
Tariff F.C.C. No. 1	)	Transmittal No. 8

To: The Commission

REPLY TO OPPOSITION TO PETITION FOR RECONSIDERATION

Beehive Telephone Company, Inc. and Beehive Telephone, Inc. Nevada (collectively "Beehive") hereby reply to the Opposition to Petition for Reconsideration ("Opposition") filed by AT&T Corp. ("AT&T") in the above-captioned proceeding.

I

AT&T argues that Beehive was provided adequate notice of the issues the Commission investigated in its *Memorandum Opinion and Order*, FCC 98-105 (June 1, 1998) ("*Order*"). AT&T agrees with Beehive that in *Beehive Telephone Co., Inc.*, 13 FCC Rcd 5142 (Com. Car. Bur. 1988) ("*Designation Order*") the Commission was "very specific about the data Beehive was required to file to justify is rates". *See* Opposition at 4. Nevertheless, AT&T absurdly suggests that since the Commission designated all of Beehive's rates under investigation, and because the Commission directed Beehive to provide cost data, Beehive was on notice "that any and all costs contained in those ledgers were subject to scrutiny." Opposition at 6. Therefore, according to AT&T, Beehive should have provided an explanation of these costs in its Direct Case. AT&T ignores the fact that the Commission's instructions set forth in the *Designation Order* did not request Beehive to explain all the information provided in its Direct Case.

The Commission provided explicit instructions in the *Designation Order* as to the specific

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issues and information Beehive was required to address as well as the format in which the information was to be presented. Beehive followed these instructions cognizant of the FCC's determination that

> provision of the *information requested* is necessary to determine whether the proposed rates are just and reasonable. Failure to provide convincing explanations and justifications of these expense levels may result in the prescription of rates that are just and reasonable . . . . *Designation Order* at ¶ 11 (emphasis added).

Beehive provided the information which the Commission determined in the *Designation Order* was necessary to evaluate the proposed rates. The instructions directed Beehive to provide an explanation of the data in only five discrete instances. Beehive does not argue, as AT&T suggests, that "it somehow failed to understand that it was required to respond to the Commission's designated issues". Opposition at 4-5. Beehive understood its obligation and did respond to the issues which the Commission specifically set forth in the *Designation Order*. Instead, Beehive argues that in the *Memorandum Opinion and Order*, FCC 98-105 (June 1, 1998) ("*Order*"), the Commission, without notice, formulated new issues and concurrently found that Beehive did not meet its burden of proof for allegedly failing to address the new issues.

Beehive was not on notice that is should explain each entry contained in its cost data, or explain its entries relating to its arrangement with Joy Enterprise Inc. ("JEI"), because the Commission in its *Designation Order* did not direct it to do so.[1/] It is ludicrous of AT&T to suggest that, presented with the enormous task of preparing its Direct Case in accordance with

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[1/] The argument that Beehive should have explained all of its costs, because the Commission specifically directed Beehive to explain some of its costs, brings to mind the maxim of statutory construction *expressio unius est exclusio alterius*, "the mention of one thing implies the exclusion of another."

the Commission's instructions, Beehive should have provided an explanation on issues not included in the *Designation Order*. Not only would it have been a pointless exercise to second guess the Commission, under the Administrative Procedure Act ("APA") it was incumbent upon the Commission to provide sufficient notice of the issues which Beehive was to address. *See* 5 USC § 554(b)(3).

When the Commission concluded that Beehive had not met its burden of proof and that its supporting information is unreliable because of its alleged failure to explain its costs, the Commission altered in its *Order*, without notice, the issues set forth in the *Designation Order*. The Commission's process was procedurally unfair because the Commission penalized Beehive for failing to do what it was not required to do. AT&T has not demonstrated how a fair reading of the *Designation Order* provided Beehive with adequate notice of the issues it allegedly failed to address.

Additionally, AT&T fails to address the procedural flaw of the Commission's decision not to request additional information or explanations of Beehive's Direct Case. AT&T focuses only on the fact that the Commission is not required to engage in ex parte communications; instead of on the fact that the Commission routinely engages in discussions with parties to "facilitate a full exchange of information so that informed and reasoned decision making may result." *Amendment of Subpart H, Part 1 of the Commission's Rules and Regulation Concerning Ex Parte Communication and Presentation in Commission Proceedings*, 2 FCC Rcd 3011, 3012 (1987). By not affording Beehive opportunity to address the new issues, and disregarding the cost and investment information Beehive provided, the Commission's *Order* was the result of uninformed and irrational decision-making. Once the Commission determined that it had new concerns and required additional information to address those concerns, it should have contacted Beehive to requested additional information in order to reasonably and efficiently resolve the issues.[2/] By not engaging Beehive in such discussions, the Commission deprived Beehive of a fair opportunity to present its case regarding the issues that came to light in the *Order*.

II

Beehive disagrees entirely with AT&T statement that Beehive "fail[s] to maintain any type of useful accounting system." Opposition at 7. AT&T has no basis in which to make such a statement. Beehive's accounts have recently been audited. In concluding the audit, Beehive's accountant found that Beehive's financial statements "present fairly, in all material respects, the financial position of [Beehive] as of December 31, 1997, 1996, 1995, and 1994, and the results of its operations and its cash flows for the years then ended, in conformity with general accepted accounting principles." *See* Exhibits 1 and 2 at 2.

Additionally, AT&T references that Beehive's accounts are not in conformity with Part 32 are equally misplaced. As stated in its Direct Case, Beehive "rebuilt its records for years 1994, 1995 and a substantial part of 1996 in order to reflect the adjusted balances and to properly reflect Beehive's transactions in accordance with Part 32 accounts." Direct Case at 35. Attached as Exhibit 3 are letters from Beehive's accountant and its controller confirming that Beehive's transactions were recorded in accordance with Part 32 requirements.

Lastly, AT&T's statement that "[t]he Commission did not prescribe rates for Beehive on

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[2/] AT&T questions why Beehive did not initiate discussions with the Commission. Opposition at n.7. Beehive had no reason to believe that the Commission would, without notice, formulate new issues and not afford Beehive an opportunity to respond to those issues prior to making its decision.

the basis of Beehive's failure to justify its rates under Part 32" is untrue. Opposition at 8. In the very paragraph cited by AT&T, the FCC states

> *We merely find that it has not met its burden to justify its proposed rates because it has not presented costs in accordance with Part 32,* has not demonstrated that it records costs and revenues in a manner that allows compliance with Part 64, 36 and 69 of our rules, and has not otherwise adequately explained its accounting system. *Order* at 10 n.62 (emphasis added).

AT&T is correct to point out that the Commission simultaneously acknowledges that Beehive was not required to comply with Part 32. Nevertheless, the Commission determined that Beehive did not meet its burden of proof to justify its proposed rates because it did not produce its records in conformity with Part 32. In doing so, the Commission went beyond its jurisdiction.

III

The factual and legal errors contained in the *Order* are relevant because as a whole the errors reveal the Commission's lack of reasoned decision-making. AT&T can not simply dismiss these errors as being "immaterial". Opposition at 9-11. Nor can not it mask the fact that errors occurred by confusing the issues.

AT&T suggest the Commission found that Beehive had not presented its cost data consistent with Part 32 on the basis that certain accounts were unexplained and "appeared unrelated to the provision of regulated service." Opposition at 10. The fact that Beehive did not explain its cost data does not indicate that the data does not conform to Part 32. Additionally, AT&T makes no attempt to explain how the expenses are unrelated to the provision of regulated service and ignores the fact that although not directed to explain its ledger entries, Beehive offered explanations to those entries questioned by AT&T, including payments to health care providers, the Internal Naturalization Service and Francis Gaines Brothers. *See* Rebuttals, CC Docket No. 97-249, at 20-22.[3/]

Additionally, AT&T asserts that Beehive should have know that expenses associated with JEI were part of the FCC's investigation. Opposition at 5. AT&T makes this statement despite the fact that the *Designation Order* makes not reference to JEI. As a basis for its statement, AT&T cites to paragraph 10(d) of the *Designation Order*. Paragraph 10(d) requests Beehive to "state whether its lease agreements for switching equipment are capital leases or some other type of lease agreement", not to explain its expenses associated with JEI. AT&T also cites to the Petition for Reconsideration that Beehive filed on February 5, 1998 with respect to its Transmittal No. 6 ("February Petition"). In its February Petition, Beehive explained its arrangement with JEI. February Petition at 19-21. Accordingly, the Commission was well aware of Beehive's arrangement but decided not to ask for additional information in the *Designation Order*. The fact that Beehive on its own did not address the JEI arrangement does not demonstrate a deficiency in Beehive's Direct Case.

AT&T confuses the issue regarding the Commission's review of Beehive's miscellaneous litigation expenses when it states that the Commission "identified the miscellaneous expenses by exact amount ($11,349.19 in 1994 and $23,637.71 in 1995), not percentages." Opposition at 10. Beehive utilized percentages to refute the Commission's claim that a larger portion of Beehive's legal expenses were classified as miscellaneous expenses. The figures cited by the Commission without a comparison to Beehive's total legal fees is not only meaningless, it does

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[3/] The simple explanation for the toy store expenses is that Beehive purchased items to be distributed to its staff at a company party.

not support the FCC's statement. 3.67%, 5.73% and 5.25% of Beehive's total litigation expenses for years 1994, 1995, and 1996 respectively, can not be properly characterized as "a large portion." The FCC's statement simply is inaccurate.

In responding to Beehive's showing that the Commission incorrectly described the "shareholders litigation" AT&T persists in perpetuating the inaccuracy by asserting that Beehive "characterized" the shareholder litigation "as a family dispute in which Mr. Brothers sought to retain control of the Beehive Telephone Companies after his wife filed for divorce." Opposition at 11. In correcting the Commission's mis-characterization, Beehive clearly stated that the

> litigation simply cannot be characterized as arising from a 'divorce action'. The litigation centered on efforts to oust Mr. Brothers from control of Beehive. Petition for Reconsideration at 16.

Moreover, contrary to AT&T's claim, Beehive did explain how the settlement to that litigation benefited ratepayers. *See* Direct Case at 28-29, Rebuttals at 11-14.[4/]

Beehive disagrees with AT&T's analysis of the rebuttable presumption afforded Beehive's legal expenses. AT&T correctly points out, *see* Opposition at 12, the presumption of lawfulness that attaches to tariffed rates does not survive if the tariff is set for investigation, *see*, *e.g.*, *Policy and Rules Concerning Rates for Dominant Carriers*, 5 FCC Rcd 6786, 6822 (1990). However, Beehive is not claiming the presumption of lawfulness. Beehive is asserting a presumption of a proximate fact -- that its litigation costs benefitted ratepayers. Commission-established presumptions of fact survive until rebutted by factual showings. *See Mountain States Telephone*

4/ Moreover, the cases cited by Beehive in its Direct Case stand for the proposition that expenses incurred in defending or settling shareholder litigation are legitimate charges. AT&T does not cite to any cases to the contrary.

and Telegraph Co. v. *FCC*, 939 F.2d 1012, 1030 (D.C. Cir. 1991) ("*Mountain States I*").

Under federal law, "a presumption imposes on the party against whom it is directed the burden of going forward with evidence to rebut or meet the presumption, but does not shift to such party the burden of proof . . . which remains throughout . . . upon the party on whom it was originally cast." Fed. R. Evid. 301. *See Panduit Corp.* v. *All States Plastic Manufacturing Co., Inc.*, 744 F.2d 1564, 1579 (Fed. Cir. 1984). Thus, once Beehive established the basic facts giving rise to the presumption (that its litigation costs arose in the normal course of its business providing service to ratepayers), the effect of the presumption was to place the burden upon AT&T of establishing the nonexistence of the presumed fact (that the litigation costs benefitted ratepayers). *See* Fed. R. Evid. 201 (advisory committee notes); *Panduit*, 744 F.2d at 1579. While the burden of persuasion remains with it, Beehive may prevail on the strength of the presumption if AT&T failed to rebut it. *See Keeler Brass Co.* v. *Continental Brass Co.*, 862 F.2d 1063, 1066 (4th Cir. 1988).

Contrary to AT&T assertions, *See* Opposition at 13, with respect to each piece of litigation, Beehive established the fact that the litigation arose from conduct undertaken by it in the normal course of business. *See* Direct Case at 17-31. Thus, Beehive established the "base" fact that gives rise to the presumption that the expense of the litigation benefitted its ratepayers. *See Panduit*, 744 F.2d at 1577. That placed on AT&T the burden of making the factual showing that Beehive's expenses were "illegal, duplicative, or unnecessary". *Order* at 9, (citing *Accounting for Judgements and Other Costs Associated with Litigation*, 12 FCC Rcd 5112, 5144 (1997)). AT&T never carried that burden. As a result, the presumption of ratepayer benefit "retains its viability", *Panduit*, 764 F.2d at 1577, and Beehive may prevail on its strength, *see*

Keeler Brass, 862 F.2d at 1066.

Contrary to AT&T's contentions, *see* Opposition at 13, Beehive's explanation of the breach of contract suit brought by James E. Ball was sufficient to carry its burden of proceeding, *see* Direct Case at 29-30. Beehive described the Ball law suit and explained that Mr. Ball is seeking $120,000 in liquidated damages. *See id.* That was enough to trigger the presumption that the contract dispute arose in the ordinary course of Beehive's business. *See Litigation Costs*, 12 FCC Rcd at 5118. Moreover, Beehive has the benefit of the presumption that it incurred the legal expense in good faith. *See Mountain States I*, 939 F.2d at 1034.

There is not precedent supporting AT&T's suggestion that litigation expenses are not recoverable unless they were incurred "solely for ratepayer benefit." Opposition at 11. Litigation costs are recoverable if "they arise out of events occurring in the normal course of providing service to ratepayers." *Litigation Costs* 12 FCC Rcd at 5144. The Commission recognizes that contract suits, such as the one brought by Mr. Ball, arise out of a carrier's "ordinary course of business" and are recoverable. *Id.* at 5118. The costs of such suits are disallowed only if an objecting party shows that the litigation costs are "illegal, duplicative, or unnecessary". *Id.* at 5144.

AT&T is way off base when it argues that Beehive failed to show that the expenses of the Ball litigation were related to "legitimate business interests." Opposition at 13. Beehive did not institute the suit; it was sued for $120,000. Surely, it was in Beehive's "legitimate business interest" to defend the suit. Beehive's ratepayers would hardly be served if Beehive allowed Mr. Ball to get a default judgment for $120,000.

AT&T makes the misguided argument that Beehive's attempt to acquire the Hanksville exchange in 1994 and 1995 "would not have benefitted IXC ratepayers, who would have been forced to pay Beehive's grossly inflated access rates during those years". Opposition at 14. At issue, however, is whether the expenses Beehive seeks to recover were incurred as a result of activity undertaken for the benefit of ratepayers. *See Mountain States Telephone and Telegraph Co. v. FCC*, 939 F.2d 1035, 1043, 1044 (D.C. Cir. 1991); *Litigation Costs*, 12 FCC Rcd at 5124 n.62. Beehive undertook to acquire the Hanksville exchange in late 1992, *see* Direct Case at 24, well before it filed its own access tariff in March 1994 and "depooled from NECA", *see* Opposition at 14.[5/]

By disallowing all of Beehive's litigation expenses, the Commission has prevented Beehive from recovering expenses prudently incurred in clearly meritorious litigation. For example, the Commission denied recovery of the costs Beehive incurred in the "Bellcore Litigation", which it undertook to protect its ability to provide an innovative "800" or toll free service. *See* Direct Case at 19. On July 13, 1998, the United States District Court for the District of Utah, Central Division issued an Order directing that Beehive's 800 numbers be restored. *See* Exhibit 4. Thus, Beehive has been denied recovery of litigation expenses in a suit in which it prevailed on a claim unquestionably pursued for the benefit of its ratepayers.

[5/] AT&T's gratuitous charge that Beehive "depooled" from NECA in order to "fund the chat line" is baseless. *See* Opposition at 14. Beehive decided to file its own access tariff in 1993, long before its October 1994 arrangement with JEI.

For all the foregoing reasons, the Commission is requested to reconsider its *Order*.

Respectfully submitted,

BEEHIVE TELEPHONE COMPANY, INC.
BEEHIVE TELEPHONE, INC. NEVADA

By ______________________
Russell D. Lukas
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Their Attorneys

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July 27, 1998

EXHIBIT 1

BEEHIVE TELEPHONE COMPANY, INC.

Auditor's Reports
and
Financial Statements

For The Years Ended

December 31, 1997, 1996, 1995 and 1994

MCNEIL DUNCAN
Certified Public Accountant
1160 South State Street #150 Orem, Utah 84058

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Auditor's Report

MCNEIL DUNCAN
Certified Public Accountant
1160 South State Street #150A Orem, Utah 84058

Member:

American Institute of Certified Public Accountants
AICPA Division for CPA Firms:
Private Companies Practice Section

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

Board of Directors
Beehive Telephone Company, Inc.

I have audited the accompanying balance sheets of Beehive Telephone Company, Inc., at December 31, 1997, 1996, 1995, and 1994, and the related statements of net income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beehive Telephone Company, Inc., as of December 31, 1997, 1996, 1995, and 1994, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated June 3, 1998, on my consideration of Beehive Telephone Company, Inc.'s internal control structure and a report dated June 3, 1998, on its compliance with laws and regulations.

McNeil Duncan

McNeil Duncan
Certified Public Accountant

June 3, 1998

Financial Statements

BEEHIVE TELEPHONE COMPANY, INC.
Balance Sheets
December 31, 1997, 1996, 1995, and 1994

Assets:	1997	1996	1995	1994
Current assets:				
Cash and cash equivalents, including RUS construction fund of $0 in all years reported	$1,411,323	733,451	420,693	1,260,071
Telecommunications accounts receivable less allowance for uncollectible accounts (Note 1)	84,890	2,115,460	1,536,353	671,920
Note receivable employee				11,146
Materials and supplies, at average cost				6,000
Prepayments	450	450		1,000
Total current assets	**1,496,663**	**2,849,361**	**1,957,046**	**1,950,137**
Non-current assets:				
Deposits	26,475	17,275	11,000	2,000
Investments – non-regulated	386,499	350,175	324,415	
Due from affiliated company (Note 10)	716,568	514,270	369,201	28,836
Total non-current assets	**1,129,542**	**881,720**	**704,616**	**30,836**
Telephone plant:				
In service	5,378,724	5,093,435	4,746,304	4,431,898
Under construction	326,136	201,941	102,938	59,540
Total telephone plant	**5,704,860**	**5,295,376**	**4,849,242**	**4,491,438**
Less accumulated depreciation	2,544,810	2,290,412	1,981,322	1,666,513
Net telephone plant	**3,160,050**	**3,004,964**	**2,867,920**	**2,824,925**
Total assets	**$5,786,255**	**6,736,045**	**5,529,582**	**4,805,898**

The accompanying notes are an integral part of the financial statements

BEEHIVE TELEPHONE COMPANY, INC.
Balance Sheets (Continued)
December 31, 1997, 1996, 1995, and 1994

Liabilities and shareholders equity:	1997	1996	1995	1994
Current labilities:				
Current accounts payable	$1,075,545	1,101,169	785,733	887,240
Accrued taxes other than income taxes	33,422	63,956	26,761	11,997
Accrued income taxes	352,219	929,151	860,297	317,924
Customer deposits	8,528	6,015	4,012	912
Current maturities of long-term debt	65,754	64,328	63,543	45,286
Total current liabilities	**1,535,468**	**2,164,619**	**1,740,346**	**1,263,359**
Long-term liabilities:				
RUS notes	1,208,152	1,255,680	1,302,247	1,347,533
Less current maturities – RUS	48,954	47,528	46,567	45,286
Other long-term debt	290,815	307,615	324,591	
Less current maturities – other long-term debt	16,800	16,800	16,976	
Payable to affiliates - (Note 11)	115,647	116,378	38,032	491,281
Total long-term liabilities	**1,548,860**	**1,615,345**	**1,601,327**	**1,793,528**
Shareholders' equity:				
Common stock - $.50 stated value, authorized 500,000 shares, issued and outstanding 424,870 at 1994; 302,870 at 1985; 300,870 at 1996 & 1997	150,435	150,435	151,435	212,435
Additional paid in capital	8,009	8,009	8,009	8,009
Retained earnings	2,543,483	2,797,637	2,028,465	1,528,567
Total shareholder's equity	**2,701,927**	**2,956,081**	**2,187,909**	**1,749,011**
Total liabilities and shareholders' equity	**$5,786,255**	**6,736,045**	**5,529,582**	**4,805,898**

The accompanying notes are an integral part of the financial statements

BEEHIVE TELEPHONE COMPANY, INC.
Statements of Net Income and Retained Earnings
For the Years Ended December 31, 1997, 1996, 1995, and 1994

	1997	1996	1995	1994
Operating revenue:				
Local network services revenue	$131,954	132,489	125,786	104,192
Network access revenue	2,733,087	3,833,630	5,239,711	1,829,691
Long distance network services revenues	125,370	87,964	17,483	41,224
Other miscellaneous operating revenues	42,843	33,227	39,405	47,680
Gross revenues	**3,033,254**	**4,087,310**	**5,422,385**	**2,022,787**
Less: uncollected operating revenues	556,706	157,320	314,124	
Total operating revenues	**2,476,548**	**3,929,990**	**5,108,261**	**2,022,787**
Operating expense:				
Plant specific operations expense	479,487	665,293	582,502	352,162
Plant nonspecific operations expense	14,276	12,321	13,764	29,031
Depreciation and amortization	340,034	312,991	314,809	254,511
Customer operations expense	1,276,509	1,304,877	1,327,699	318,059
Corporate operations expense	710,322	554,321	1,488,068	596,966
Total operating expense	**2,820,628**	**2,849,803**	**3,726,842**	**1,550,729**
Operating taxes:				
Federal and state income taxes - operating	(167,092)	225,705	657,537	131,956
Property taxes	54,167	49,750	43,499	37,957
Other operating taxes	1,170	3,380	3,008	2,312
Total operating taxes	**(111,755)**	**278,835**	**704,044**	**172,225**
Operating income	**(232,325)**	**801,352**	**677,375**	**299,833**
Fixed charges:				
Interest on long-term debt	24,597	27,777	24,385	27,432
Other interest expense	21,916	20,151	4,474	49,772
Total fixed charges	**46,513**	**47,928**	**28,859**	**77,204**
Other income and expense:				
Interest and other income, net of income tax (Note)	40,177	18,748	34,382	10,899
Non-operating expense, net of income Tax (Note)	12,863			
Net other income and expense	**27,314**	**18,748**	**34,382**	**10,899**
Net income	**(251,524)**	**772,172**	**682,898**	**233,528**
Retained earnings, beginning of year	**2,797,637**	**2,028,465**	**1,528,567**	**1,295,039**
Less capital stock redemption	2,630	3,000	183,000	
Retained earnings, end of year	**$2,543,483**	**2,797,637**	**2,028,465**	**1,528,567**
Earnings per share of common stock - average	($1.67)	$5.11	$3.75	$1.10

The accompanying notes are an integral part of the financial statements

BEEHIVE TELEPHONE COMPANY, INC.
Statements of Cash Flows
For the Years Ended December 31, 1997, 1996, 1995, and 1994

Inflows or (outflows) of cash and cash equivalents	1997	1996	1995	1994
From operating activities:				
Cash received from customers	4,511,901	3,355,633	4,258,474	1,410,763
Cash paid to supplies and employees	(2,613,176)	(2,237,761)	(3,538,283)	(777,341)
Cash received from interest	61,080	25,985	52,864	17,867
Cash paid for interest	(46,513)	(47,928)	(28,859)	(77,204)
Cash paid for income taxes	(427,302)	(168,838)	(137,146)	(46,012)
Net cash from operating activities	**1,485,990**	**927,091**	**607,050**	**528,073**
From investing activities:				
Construction and acquisition of telephone plant	(495,120)	(450,035)	(357,804)	(288,907)
Investments in non-regulated non-affiliates	(53,124)	(42,560)		
Change in advances to affiliate	(202,298)	(145,069)	(340,365)	38,658
Change in payable to affiliates	(731)	78,346	(453,249)	23,678
Change in court deposits	(9,200)	(6,275)	(9,000)	
Net cash from investing activities	**(760,473)**	**(565,593)**	**(1,160,418)**	**(226,571)**
From financing activities:				
Payment of long-term debt	(47,528)	(46,743)	(45,110)	47,466
Redemption of capital stock	(2,630)	(4,000)	(244,000)	
Increase (decrease) in customer deposits	2,513	2,003	3,100	338
Net cash from financing activities	**(47,645)**	**(48,740)**	**(286,010)**	**(47,128)**
Net cash increase (decrease)	**677,872**	**312,758**	**(839,378)**	**254,374**
Cash and cash equivalents - beginning	**733,451**	**420,693**	**1,260,071**	**1,005,697**
Cash and cash equivalents - ending	**1,411,323**	**733,451**	**420,693**	**1,260,071**

(Continued)

The accompanying notes are an integral part of the financial statements

BEEHIVE TELEPHONE COMPANY, INC.
Statements of Cash Flows (continued)
For the Years Ended December 31, 1997, 1996, 1995, and 1994

	1997	1996	1995	1994
Reconciliation of net margins to net cash provided by operating activities:				
Net income	**(251,524)**	**772,172**	**682,898**	**233,528**
Depreciation and amortization	340,034	312,991	314,809	254,511
(Increase) decrease in receivables	2,030,570	(579,107)	(853,287)	(612,024)
(Increase) decrease in regulated inventory			6,000	(5,000)
(Increase) decrease in prepayments		(450)	1,000	
Increase (decrease) in accounts payable	(56,158)	255,619	10,269	564,146
Increase (decrease) in income tax accruals	(576,932)	165,866	445,361	92,912
Net cash from operating activities	**1,485,990**	**927,091**	**607,050**	**528,073**

The accompanying notes are an integral part of the financial statements

BEEHIVE TELEPHONE COMPANY, INC.
Notes to Financial Statements

NOTE 1 - Summary of Accounting Policies (Some accounting policies are presented with the discussion relating to the item to which the policy is applicable.)

Nature of Operations
Beehive Telephone Company, Inc. (the "Company") is a local exchange telephone company operating in the Utah counties of Box Elder, Garfield, Iron, Juab, Kane, Millard, Tooele, Washington, and Wayne.

System of Accounts
The Company operates under the regulatory jurisdiction of the Utah Public Service Commission and the Federal Communications Commission and has maintained its accounting records in accordance with Part 32, Uniform System of Accounts for Telephone companies as prescribed by the Federal Communication Commission as modified by the Rural Utilities Service in 7 CFR Part 1770.

Concentration of Credit Risk
The Company has deposits for the years ending 1997, 1996, 1995, and 1994 respectively of $110,265, $253,176, $272,381, and $572,833, which are insured by the FDIC. Cash deposits exceeding the amounts insured by FDIC amount to $1,301,058, $480,275, $148,312, $687,238 respectively.

Revenues relating to one customer amount to 82%, 77%, 80%, and 17% of gross revenues for the years ended 1997, 1996, 1995, and 1994 respectively.

Monthly reviews are made of all past due accounts and a customer deposit is required for non-established and slow paying accounts. Allowance for credit losses is maintained at a level considered adequate to provide for such losses based on management's assessment of various risk factors affecting the investment in receivables. The allowance for uncollectible accounts for the years ended 1997, 1996, 1995, and 1994 are $645,712, $440, 272, $335,264, and $59,611 respectively.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventories:
Inventory of new and reusable materials and supplies are stated at the lower of cost or market, with cost determined by the average cost method. Nonreusable material is carried at estimated salvage value. Materials and supplies are normally purchased only as needed.

Notes to Financial Statements (continued)

NOTE 1 - Summary of Accounting Policies (continued)

Property, plant and equipment:
Telephone plant in service and under construction is stated at the original cost of construction, including the capitalized cost of salaries and wages, materials, certain payroll taxes and employee benefits.

Depreciation is charged on a straight-line basis at annual rates that will amortize the cost of property over its estimated useful life. Depreciation rates are approved by the Utah Public Service Commission.

When telephone plant property is retired, its cost is removed from the asset account and charged against accumulated depreciation, together with costs of removing such plant less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable property with the exception of general support facilities.

Revenue Recognition
Local service, intrastate and interstate access revenues are recognized when billed.

NOTE 2 - Assets Pledged

Substantially all assets are pledged as security for the mortgage agreement with the Rural Utilities Service.

NOTE 3 – Non-current Assets - Deposits

Deposits for each of the years reported represent bonds deposited with various courts.

NOTE 4 - Investments – Non-regulated

	1997	1996	1995	1994
Annuity (restricted asset)	$290,815	307,615	324,415	
Equity securities	95,684	42,560		
Total Investments –Nonregulated	**$386,499**	**350,175**	**324,415**	

The annuity is solely for satisfying scheduled payments on the liability described in Note 6.
The equity securities have no readily determinable market value, thus are carried at cost.

NOTE 5 - Telephone plant
Major classes of telephone plant in service are as follows:

	1997	1996	1995	1994
General supports assets	$917,088	786,535	719,176	517,198
Central office equipment	1,443,649	1,297,189	1,181,977	1,069,549
Cable and wire facilities	3,017,987	3,009,711	2,845,151	2,845,151
Total plant	**$ 5,378,724**	**5,093,435**	**4,746,304**	**4,431,898**

Notes to Financial Statements (continued)

Note 5 Telephone Plant (continued)

Individual telephone plant depreciation rates are as follows:

Buildings	3.5 %
Furniture and office equipment	15 %
Motor vehicles	17 %
Central office equipment	9.5 % to 18.71 %
Cable and conduit	2.1 % to 6.14 %

NOTE 6 - Long-Term Debt

RUS notes are 2% mortgage notes payable to the United States of America over a 35-year period:

Rate Percent	Date of Issue	Date of Maturity	Face Amount	Balance 12/31/97
2.00	1983	2018	$ 2,000,997	1,208,185
	Advance payments			(33)
	Total		**$ 2,000,997**	**1,208,152**

Unadvanced RUS loan funds amount to $5,524,570 at December 31, 1997.

Principal and interest payments on RUS notes are due monthly in equal amounts of $6,010. Principal and interest payments on the other long-term debt are due annually in equal amounts of approximately $30,000. Loan covenants place restrictions on the payment of dividends while these loans are outstanding.

. Projected total principal requirements for long-term debt for the next five (5) years are as follows:

Year	Amount
1998	$ 65,754
1999	67,223
2000	68,735
2001	70,293
2002	71,898

Other long-term debt represents an amount due a former officer for a deferred compensation settlement concluded in 1995. The amount is payable over an eleven year period. The annuity described in Note 4 is to be used solely for satifying these scheduled payments.

NOTE 7 - Income Taxes

Federal and state income taxes are charged to the year generating the taxable income or loss. A summary of the allocation of each year's income taxes follows:

	1997	1996	1995	1994
To operating income	($167,092)	225,705	657,537	131,956
To other income	25,686	11,987	21,982	6,968
To other expense	(8,224)			
Total income taxes	**(149,630)**	**237,692**	**679,519**	**138,924**